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## CONDITION AND PROSPECTS OF THE TREASURY.

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WAR, whether for the right or for the wrong, is always to be deplored. The loss of life, the economic waste occasioned by the transfer of thousands of active workers from the fields of production to those of devastation, the restriction of domestic industrial development, the derangement and perils of ocean-borne commerce and a thousand other unnamed evils cry out loudly for the settlement of international disputes by peaceful means. And yet few wars have been fought that have not contributed their share of good to mankind. There is usually some great cause involved, and whoever is victor wins a principle for the future guidance of a people. Only a generation ago, we found it necessary to make a tremendous sacrifice of this kind. Thousands of brave men gave their lives; millions of property were laid waste or expended for the establishment of a great principle.

Our recent conflict with Spain has a deeper meaning than may be generally apprehended. We were easily victorious on land and on sea, and by the achievements of a short campaign demonstrated to all the world the fact that this Republic, but little over a century old, must henceforth, if it had not been before, be regarded as a power of the first magnitude. The demonstration of this fact was a gain beyond our purpose. It had been intended

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only to remove a serious menace to our tranquillity by putting an end to a near-by disturbing conflict. The hopelessness of Spain's effort to subdue her refractory colonies was evident. The determination of her rebellious subjects to continue their equally hopeless struggle was also apparent. To end such strife was the thing desired and attained. But aside from the prestige won and purpose fulfilled, something else was gained, though not so evident. It is represented by the subtle influences which have been engendered in the minds of the people. There has been awakened a keener interest in the problems of free government. These problems are not essentially different from those which confront other nations. They, as well as we, must conduct themselves as becomes members of the family of nations. Upon them, as upon us, rests the obligation to maintain domestic peace and order. Upon them, as upon us, falls the burden of taxation to provide revenues with which to carry on the many affairs of government. In short, all forms of government which exist to-day among civilized peoples are maintained for practically the same objects—only different methods for securing these objects are employed. In most other countries, the individual shares in the responsibilities of government not at all, or only to a limited degree. It is our boast that with us every individual is a citizen, not a subject, and that every citizen, being a part himself of the government of the Republic, has the attributes of sovereignty.

If it be true that every citizen is a sovereign, it must be taken to be so largely in a Pickwickian sense, for one person counts for little among seventy-five millions of people. It is when all these sovereign citizens, or the greater part of them, think with a single thought and are moved by the same aspirations, that the majesty of the Republic is revealed. Its mass, as represented by the united ambitions of its units, cannot fail to demonstrate the fact that here is an organization of gigantic strength—such strength as, turned to good, may work wonders for civilization, but, given over to vicious and evil tendencies, may likely invite such havoc as the world has never seen. Its capacity for good or evil is unlimited, and there must be great care taken that this Samson among the nations of the earth be not blind, lest he pull down the temple of State upon himself. Then, whatever happens to increase the intelligent interest of our people in the affairs of government, whatever occurs to arouse the public mind to a con-

sciousness of the responsibility of participation in government, must be counted as of great good.

Not the least of the gains, therefore, which may be said to have come to us from the war with Spain, has been the quickening which its events gave to the public conscience. It is true, to a large extent, that this newly-aroused interest was devoted to things which come under the jurisdiction of the War and Navy Departments. The victories of Manila and Santiago revived patriotism, and the movements of fleets and armies were watched with keen appreciation. Every act, whether by Congress or by the President, that went to reinforce and support the national fame and honor, was approved. Where there was confusion and delay there was criticism. There has been much of fault-finding. Where the liberties and privileges of the citizen are as free as with us, there always will be. It is to be invited, too, not only that defects in our plans and practice may be pointed out and remedied, but because it is an evidence of genuine interest in public affairs. On the other hand, whatever there has been of praise has been nobly earned and generously accorded.

Deep as has been the interest taken in the military and naval operations of the Government, the affairs of the Treasury have by no means been neglected in the public mind. Interest in the Government's finances furnished one of the gratifying features of the war, and the position, prospects and problems of the Treasury are to-day the subject of a keener comprehension as the result of this awakened public sentiment. A continuance of this greater concern in these problems will bring better understanding, with the result that, supported by an intelligent public opinion, we may avoid the dangers which have in former years been a menace to national credit and the prosperity of our country.

The importance of a well-filled Treasury as an element in war, needs scarcely any demonstration. It is the *sine qua non*, especially of modern warfare. Perhaps the Treasury's claim to distinction in this regard has never been better put than in the language of the War Minister of Louis XI. of France, who, in response to a question of that monarch, declared that to prosecute a war successfully, "three things are necessary—money, more money, always money." The first of these three things, the Treasury of the United States had in comparative abundance at the breaking out of hostilities with Spain; that is, it had, April

21, 1898, no less a sum, available cash on hand, than 220 millions of dollars; and for the second and third things, "more money" and "always money," it had the resources and revenue-producing capacity of the richest nation in the world.

Not the least of things which contributed to a strong Treasury situation at this critical period of war was the fact that, of the available cash balance above mentioned, more than 80 per cent., or \$180,000,000, was in gold. This margin of \$80,000,000, above the traditional \$100,000,000 required to be maintained for the redemption of United States notes, gave assurance of the Government's ability to preserve the national credit until Congress could, by the necessary legislation, provide for replenishing the reserves as rapidly as they were exhausted by the expenditures of the war.

With the closing month of 1897, the country congratulated itself upon the fact that receipts exceeded expenditures,—the first monthly surplus under the Dingley tariff. Again there was a surplus in February, 1898, notwithstanding the shock to the business of the country from the appalling loss which the nation suffered through the destruction of the "Maine" and its crew in Havana, on February 15th. It seemed certain that, at last, recovery had come from the abnormally heavy importations of the previous spring in anticipation of higher tariff rates, and it was confidently believed by those most familiar with the subject that the national Treasury was about to participate in the general improvement which the country was enjoying. The full tide of business was bringing in its train better conditions for the Treasury, and we looked forward hopefully to the time when every month's statement would show an excess of receipts over expenditures. The Treasury being thus strongly fortified with ample funds for immediate use, and the revenues showing marked improvement, the war came upon us with scarcely a fear. There was a little momentary unrest, but nothing suggestive of a panic, in the great money centers of the country. Throughout the land there was an abiding faith that the integrity of our financial institutions would be preserved. It was generally recognized that the administration in power would maintain inviolate the credit of the United States.

The disposition of Congress to do with expedition all things required was an important factor in establishing general confi-

dence. Before war had been declared, and while there was yet hope that it might be averted, Congress, at the suggestion of the Executive, promptly, and without debate, appropriated \$50,000,000 for the national defense. Before two months of strife had passed, ample provision had been made for raising war revenues by a measure which, in many respects, was an example of scientific financiering. It authorized the Secretary to borrow, upon the credit of the United States, \$400,000,000, for which bonds were to be issued, and for the purpose of equipping the Treasury with an instrument which might be relied upon for immediate uses, it authorized him to issue loan certificates to the amount of \$100,000,000. At the same time, recognizing the true principle of public financiering, it levied additional taxes with which to pay the increased indebtedness thus incurred. The temper of the people under these fortunate conditions was admirably illustrated by the success which attended the floating of the war loan of \$200,000,000. When the books of the loan were opened to receive subscriptions, there was a rush which continued during the month in which they were received. The total of fourteen hundred million dollars subscribed is a monument to the confidence the people had in the financial strength of the Government. This exhibition of resources must have been scarcely less disheartening to our impoverished antagonist than was the destruction of her fleets. The success of the national loan thus became a factor—not quite so thrilling, perhaps, as the victories won by the army and the navy, but hardly less potent—in bringing the war to a speedy termination.

When hostilities ceased, the Treasury occupied a stronger position than at the beginning of war; when peace was formally declared, April 11, 1899, almost a year after the declaration of war, its strength in available cash and gold had grown materially. While it held, April 21, 1898, \$220,000,000 in cash, it held April 11, 1899, \$282,000,000. From the one date to the other the net gold increased from \$180,000,000 to \$245,000,000. In the meantime there had been expended on account of the war over \$240,000,000; so that the proceeds of the war loan have been entirely disbursed and \$40,000,000 of the revenues besides. So much for the year of war, during which, fortunately, the condition of the Treasury has not been a disturbing element to the business of the country.

What of its prospects? Reasonably, these cannot be foretold for any long period of time. At the beginning of the last session of Congress, when the Secretary of the Treasury made his annual report on the state of the finances, he estimated that the end of the fiscal year, June 30, 1899, would find the Treasury with a deficit of \$112,000,000. During the year the receipts have been augmented to the extent of \$11,800,000 on account of the Central Pacific settlement. On the other hand, disbursements of extraordinary character have taken place which were not considered in the estimates submitted to Congress, namely, the Philippine payment of \$20,000,000 to Spain and \$3,000,000 to the Cuban army. It will be proper, therefore, to take no account of either of these items. Putting them aside, it seems certain, with only so short a time remaining until the fiscal year is ended, that the estimated deficit of \$112,000,000 above set forth will not be exceeded. Should we escape the occurrence of unforeseen events, that estimate may prove to be too high by a million or so of dollars. The accuracy of this estimate is not fortuitous. It is indicative of the close attention which the Treasury Department is able to devote to the finances, and is in strong contrast to the extravagant predictions made in Congress near the close of the last session. It will be recalled that much trepidation resulted then from the practically official announcement of an expected deficit of \$159,000,000, and this sum was added to by others. At the time when the deficit was estimated for the year to end June 30, 1899, the Secretary of the Treasury submitted an estimate covering the fiscal year to end June 30, 1900, amounting to \$30,000,000 for that year. It seems certain now, barring always, of course, the happening of unlooked-for events, that the deficiency for the next fiscal year will not exceed the estimate. In fact, under the influence of revenues slightly more favorable than those expected, there is a probability that the estimated \$30,000,000 deficit may be too high, and it is within the possibilities that there may be no deficit at all. In the light of this showing, there will be no further issue of bonds, and, judging from present conditions and the fair outlook, there will not even be a resort to the loan certificates authorized to be issued by the war revenue act. If occasion should demand, and none is anticipated, the Secretary of the Treasury would doubtless exercise the authority referred to.

But other occasions, too recent and too trying to be easily forgotten, have shown that these fortunate conditions in and out of the Treasury cannot always be assured to us. Under the system which now obtains, a close intimacy has been evolved between Government finances and general business affairs.

In Great Britain, France, and Germany, the connection between commercial activities and the national budget is slight. Here, every man carrying the responsibilities of large enterprises, whether in commerce or industry, has been taught by sad experience that his best estimates as to future conditions may be at any time nullified by perturbations in the Treasury, caused either by falling revenue, extraordinary expenditures, or currency movements which threaten the "gold reserve." He is thus exposed to double risks. He is always sailing his imperilled craft between the Scylla of commercial hazard and the Charybdis of national finances. Looked at in a large way, the perils and losses arising from the latter exceed those occasioned by the former, although not so readily recognized and traced. Thus it frequently happens that doubts assail and threatened disaster undermines the whole industrial and commercial fabric. The experience of the past is replete with unhappy evidences of this truth. The effect on the Treasury and the business of the country of the Venezuelan boundary controversy, to be referred to later, furnishes a striking example. The possibility of war with a great world Power subjected the Treasury's gold to attack, and put all trade and industry at a stand-still. This is an extreme case, perhaps, and yet only two years before, from causes far less potent, the Treasury tottered on the verge of ruin and the country faced appalling disaster. Above, brief mention has been made of the remarkable success attending our last issue of bonds—those of the war loan of 1898—when the Government opened its books to subscriptions for two hundred millions of dollars, and, being actually at war, received offers from the people aggregating the enormous sum of fourteen hundred millions. Only so late as January, 1894, when we were at peace with all nations, and there was no prospect, near or remote, of war, the Government of the United States went begging almost in vain for financial assistance. During and following the panic of 1893, grave doubts as to our financial integrity had arisen. Apprehension existed, both in this country and abroad, as to our ability to continue, under the exist-



ing currency system, the redemption of Government notes in gold, and there was a not unreasonable fear that the time had arrived when we could no longer maintain the parity between that metal and silver. Withdrawals of gold from the Treasury during the fiscal year which ended June 30, 1893, aggregated \$108,000,000. Throughout the following year the Treasury stock of gold continued to be depleted mainly by the presentation of notes for redemption. By January 31, 1894, the gold reserve had fallen to \$65,650,000, and the available cash in the Treasury to only \$84,082,000.

The situation was desperate. A constantly decreasing supply of gold foreboded descent to a silver basis. In this extremity, the Government asked the people to subscribe for its bonds. Indeed few there were who felt called upon to face what seemed certain loss by subscribing to the loan of fifty millions, the first of the series under the administration of President Cleveland utilized to support and maintain the national credit. The loan was to close February 1, 1894. As that day approached, it seemed almost inevitable that the effort would be a failure. My predecessor, in an official report, said: "At one time pending the call it was feared that the effort would fail. However, owing to extraordinary exertions made during the last two or three days preceding the time when the bids were to be opened, subscriptions for the whole amount were secured." The extraordinary exertions referred to deserve to be chronicled among the patriotic deeds which enrich this country's history. The bonds had been offered to the public at an upset figure of 117.223, at which price they were equivalent to a three per cent. bond at par. How little acceptable they were to the public is shown by the fact that, except for the action of the patriotic banks of New York, the people took of them only \$9,295,300. When it became known in New York that the loan was likely to fail, Mr. John A. Stewart, President of the United States Trust Company, went around among the bankers of that city and aroused them to a sense of the country's peril. As an actual witness of those events, I bear testimony to the fact that there was a strong disinclination to subscribe, owing to the grave uncertainties of the times. In the end, Mr. Stewart secured pledges from as many persons as were needed to take the entire issue at the Government's price. In this manner, \$40,704,700 of the \$50,000,000 offered were taken by the

banks of New York, the other \$9,295,300 going to those who had subscribed at slightly higher rates. Such was the perilous position of the National Treasury only five years ago, and thus was the country saved from the wide-spread ruin imminent.

The close relationship existing between our Government finances and commercial and industrial conditions suggests the inquiry as to what the Treasury Department really is. In a recent work ex-President Harrison says:

"Out of the devices adopted to meet the great expenditure for the suppression of the Rebellion in 1861, it has come to pass that the Government furnishes, either directly or through the national banks, all of the money used by the people. The Treasury Department is now a great bank, and no longer a mere public collecting and disbursing agency. It prints paper money, pays it out for public uses, receives it in payment of customs duties and internal taxes, and pays it out again for salaries, supplies and public works. It is also required to redeem the greenbacks and Treasury notes—to give coin in exchange for them if demanded."

To call the Treasury Department a great bank, however, is to use a misnomer. A bank receives deposits of money subject to the drafts of its dealers. It buys and sells exchange; that is to say, it makes payment for property and products at one point against an order for its reimbursement at some distant point, either foreign or domestic. The bank extends its credit to the use of the producer, the manufacturer and the merchant. It thus serves as a vital agent in modern industry. Through its operation the use of money and capital is economized, and by its aid the work of the world is made more effective. The offices and function thus briefly set forth, constitute the principal features characteristic of a bank, and yet the Government exercises not one of them. It is true that in the evolutionary movement which has resulted in the modern machinery of business, such as the express company, the telegraph and the bank, the latter came, in the fullness of time, to exercise a function not named in the summary above made. That function was to issue in small denominations suitable for the needs of the bank's dealers, the bank's own notes or promises to pay. These notes were in essence a check or draft issued by the bank itself, payable to the bearer on demand. It is this function which has been practically monopolized by the Government, and from which, by repressive taxation, the bank has been substantially inhibited.

It is important to keep these facts and these distinctions in mind. They have directly to do with the subject we are considering. While it would now appear that, in issuing its notes and in paying them out for public uses (Government expenses), redeeming them again in coin on presentation, or receiving them in payment for moneys due to itself, the Treasury is doing in some particulars what a "great bank" would or might do, looked at more closely, however, it will be easily seen that even here the points of contrast are more marked than are the points of resemblance.

When the bank issues its note, it is against the delivery to it of some form of value which will remain in the bank's control while the note is outstanding, and which can be made effective for the note's redemption. When the Government issues its note, it is in payment for goods or services already received and consumed. These goods and services, having been consumed in the public service, do not and cannot remain as an existing value available for the redemption of the issued note. The bank loans its notes for the accommodation of, or to meet the needs of, the business public. The Government issues its notes to pay its bills without regard to the needs of the business public. With an increase in bank issues the bank increases *pari passu* its resources. Its power to redeem its obligations remains, therefore, relatively the same. With an increased issue of Government notes, if issued in conformity with the principle underlying those now outstanding, no addition whatever is made to the Treasury's resources. With every increased issue, therefore, its power to redeem becomes relatively less. There is a resemblance between the bank note and the Government note—both are promises to pay, both are used as agents of exchange between the buyer and the seller, and here the resemblance ends. But there is another and distinct quality imparted by law to the Government note. It is a legal tender for all private debts. Being a legal tender, its relation to the business community becomes of the most intimate kind and of the very highest importance. As efficient as gold in the money reserves and in payment of debt, it must be maintained as good as gold, through prompt redemption in gold, by its issuer, or the whole credit structure, public and private, will fall into chaos.

With confidence undoubted in the purpose and power of the Government to maintain such redemption under any and all conditions and circumstances, the great interlacing system of credit

operates in the field of industry and commerce with a sense of security. Disturb the confidence in any manner, raise doubt either as to the purpose or power of the Government in the direction in question, and the whole credit structure is shaken to the center. We have illustrations of this truth, not far removed as to time. Their record can be found in the financial history of 1893 and between the months of July and November, 1896. Another can be brought forward—more likely to be repeated in essential form and substance than are the other two. I refer to the effect of President Cleveland's Venezuelan message of December 17, 1895. The business interests of the country had for some months previous thereto given evidences of a partial recovery from the debilitating effects of the panic of 1893. Capital was again seeking investment. Industry was reviving. Labor was coming into larger and more remunerative employment. The message referred to brought the country face to face with the possibilities of a great war. A war, either great or small, was a responsibility that the national Treasury was not then at all prepared to meet. The gold in the Treasury was twenty-five millions below the one hundred millions which was supposed to stand as a reserve for the outstanding legal-tender notes. The total available cash in the Treasury, including the gold reserve, was only one hundred and seventy-five millions, and seventy-two millions of this consisted of the government's own notes; while it had outstanding liabilities payable on demand of more than four hundred millions.

There has never been any doubt since the close of the civil war as to the ability of the nation to raise all needful revenue, either for conditions of peace or war. The power to obtain revenue is the basis of national credit, for it is from revenue alone that interest and principal can finally be paid. The money of the world is open to the credit of the United States of America, and justly so, since, even if our present interest-bearing debt were a thousand millions greater than now, the increased interest charge could be met at a cost of less than forty cents *per capita* per annum. The debt of the United States, June 30, 1880, less cash in the Treasury, was \$1,922,517,364. On June 30, 1890, it had been reduced to \$891,960,104. To use the language of the Census report, this represented "a decrease of \$1,030,557,260, or more than \$100,000,000 per annum, a reduction of debt through voluntary taxation unprecedented in the history of the world."

Nevertheless, the gravity of the political situation in 1895, brought on a recurrence of the evils produced by the reaction of 1893. Why was this so? It was so because of the weak condition of the public Treasury in relation to its demand liabilities. A fear was felt, genuine and wide-spread, that if war came, specie payment would be suspended at the Treasury. Now a suspension of gold payments by the Treasury is a much more important matter and of deeper general concern than a suspension of such payments by the banks. In the first place, with a large volume of legal-tender notes outstanding, a suspension of payment by the government involves, as a consequence, a suspension of coin payment by the banks. Compelled by law to receive government notes in payment of debts due them, they are compelled in turn to force a similar payment upon their creditors. What is true of the banks is equally true of all members of the community in their relations one to another as debtor and creditor. Thus the suspension of coin payment becomes general, gold commands a premium, being qualified not only to pay debts but also to command goods, upon better terms as to price, in the world's market, than are the defaulted notes of the government or the banks.

Again, there is no power anywhere lodged that can compel the Government to resume payments once suspended. There is not even the penalty of interest to induce efforts to resume. Its action is likely to be more largely influenced by political than economic considerations.

In the absence of legal-tender paper money, a suspension of specie payments by the banks does not carry with it these serious consequences. Such a suspension cannot take place and long endure, unless sanctioned by law. Over the bank is the authority of the law, and its processes can be invoked by any dissatisfied creditor to compel payment in lawful money. Nor does such a suspension, if general, seriously hurt the credit of the bank. In fact, under the admirable system which is maintained by our neighbor on the north, the notes of a Canadian failed bank are worth more than those of a solvent one. When a Canadian bank fails, its notes go to a premium because from the date of failure they begin to draw interest, while their final redemption is adequately secured. Specie payments were suspended for a period in 1857 in the United States, but the banks continued to do business as usual, bank notes being the medium of receipts by the banks

and of payments from the banks. During this period of suspension, however, gold never reached any appreciable premium. Whenever it was needed for special purposes, or whenever it was demanded by an irreconcilable creditor, it was forthcoming. In support of this general proposition, the conduct of the Bank of France through the German war of 1870-71 can be cited with even greater effect. That bank is the largest note-issuing bank in the world. It was obliged to suspend payment in specie, yet its general credit was not seriously affected. Gold commanded a premium of not more than  $2\frac{1}{2}$  per cent. With the close of the war it promptly resumed payments in specie, having faithfully served commercial interests in the interim, besides advancing to the Government the enormous sum of two hundred and eighty millions. Well might Thiers, the first President of the new Republic, say: "The bank saved us because it was not a bank of State." When we recall that during our struggle of '61 to '65, our Government notes fell to the value of forty cents measured in gold, the contrast raises doubt as to our financial wisdom.

Space forbids a more extended presentation of the subject. The position of the Treasury is at present fairly good; the prospects for the immediate future are free from any features of special alarm; its problems remain to be solved. The chief problem is this, How to disassociate the natural function of the Treasury, which, simply stated, is the collection of the public revenue and the payment of public expenditure, from the unnatural features of note issues, gold redemptions, and the maintenance of a parity between two large volumes of metallic money, possessed of a commercial disparity equal to the difference between one-half and one. The duties involved in the present system the Treasury is poorly organized to perform. The effort to perform them will always be expensive and full of dangers to interests both public and private. A wider knowledge of the truth must be had before the problem can be wisely solved. Solved it ultimately must be, and when this occurs the Treasury may return to a position approximating what President Harrison described as an ideal one when he said: "It would be an ideal condition of things if the Treasury Department received each morning just the sum of money it had to pay out that day—no surplus money out of use in its vaults, no deficit to be met by loans."

LYMAN J. GAGE.